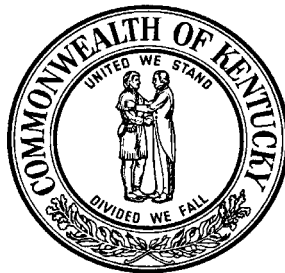


**REPORT OF THE AUDIT OF THE
FULTON COUNTY
CLERK**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FULTON COUNTY CLERK

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the Fulton County Clerk's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$1,239 from the prior year, resulting in excess fees of \$1,260 as of December 31, 2006. Revenues increased by \$39,175 from the prior year and expenditures increased by \$37,936.

Report Comment:

The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits as of April 7, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$44,537

The County Clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Clerk's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Gallagher, Fulton County Judge/Executive
The Honorable Betty Abernathy, Fulton County Clerk
Members of the Fulton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Fulton County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2007 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable David Gallagher, Fulton County Judge/Executive
The Honorable Betty Abernathy, Fulton County Clerk
Members of the Fulton County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Fulton County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

August 30, 2007

FULTON COUNTY
 BETTY ABERNATHY, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Grants	\$	10,422	
State Fees For Services			3,236
Fiscal Court			12,385
Licenses, Taxes, and Fees:			
Motor Vehicle-			
Licenses and Transfers	\$	150,137	
Usage Tax		430,532	
Tangible Personal Property Tax		414,763	
Ad Valorem Liens		1,394	
Other-			
Fish and Game Licenses		4,532	
Marriage Licenses		3,968	
Occupational Licenses		695	
Deed Transfer Tax		13,069	
Delinquent Tax		74,185	
Housing Trust Fund		2,586	
		1,095,861	
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		4,085	
Real Estate Mortgages		8,234	
Chattel Mortgages and Financing Statements		20,172	
Powers of Attorney		298	
All Other Recordings		5,131	
Charges for Other Services-			
Candidate Filing Fees		2,730	
Copywork		1,909	
		42,559	
Other:			
Miscellaneous			1,360
Interest Earned			277
Total Revenues			1,166,100

The accompanying notes are an integral part of this financial statement.

FULTON COUNTY
 BETTY ABERNATHY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 120,281
Usage Tax	415,762
Tangible Personal Property Tax	129,891

Licenses, Taxes, and Fees-

Fish and Game Licenses	4,478
Delinquent Tax	7,109
Legal Process Tax	6,081
Housing Trust Fund	<u>2,604</u>
	\$ 686,206

Payments to Fiscal Court:

Tangible Personal Property Tax	34,858
Delinquent Tax	8,210
Deed Transfer Tax	12,199
Occupational Licenses	<u>335</u>
	55,602

Payments to Other Districts:

Tangible Personal Property Tax	234,512
Delinquent Tax	<u>42,622</u>
	277,134

Payments to Sheriff

696

Payments to County Attorney

11,789

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	45,274
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Supplies and Materials-

Office Supplies	4,505
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Other Charges-

Conventions and Travel	2,136
Dues	350
Postage	1,921
Phone	1,002
Advertising	29
Refunds	1,437

Capital Outlay-

Office Equipment	<u>10,422</u>	<u>67,076</u>
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Total Expenditures

\$ 1,098,503

The accompanying notes are an integral part of this financial statement.

FULTON COUNTY
 BETTY ABERNATHY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Net Revenues		\$	67,597
Less: Statutory Maximum	\$	61,086	
Expense Allowance		3,600	
Training Incentive Benefit		1,651	
		<u> </u>	<u>66,337</u>
Excess Fees Due County for 2006			1,260
Payment to Fiscal Court - February 13, 2007			<u>1,245</u>
Balance Due Fiscal Court *		\$	<u><u>15</u></u>

* Note: The County Clerk presented a check to the County Treasurer for the balance due Fiscal Court on August 30, 2007.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

FULTON COUNTY
 NOTES TO THE FINANCIAL STATEMENT
 December 31, 2006
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 7, 2006, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Clerk's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$44,537

FULTON COUNTY
NOTES TO THE FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 4. Grant

The Fulton County Clerk received a local records grant from the Kentucky Department for Libraries and Archives during the 2005 calendar year in the amount of \$15,010. During 2006, funds totaling \$10,422 were expended. The unexpended grant balance was \$4,588 as of December 31, 2006.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Gallagher, Fulton County Judge/Executive
The Honorable Betty Abernathy, Fulton County Clerk
Members of the Fulton County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Fulton County Clerk for the year ended December 31, 2006, and have issued our report thereon dated August 30, 2007. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fulton County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fulton County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fulton County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The County Clerk's Office Lacks Adequate Segregation of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fulton County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Fulton County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Fulton County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 30, 2007

COMMENT AND RECOMMENDATION

FULTON COUNTY
BETTY ABERNATHY, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2006

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

The County Clerk performs all bookkeeping functions. The County Clerk has statutory authority to assume the role as custodian of monetary assets as well as recorder of transactions and preparer of financial statements. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend the County Clerk implement the following controls in order to segregate duties to the extent possible and also to provide additional compensating controls for duties that cannot be segregated:

- The County Clerk should allow a deputy to prepare the daily checkout sheet based on the day's receipt forms. The deputy should also account for all pre-numbered receipts issued for that day.
- The County Clerk should allow a separate deputy to prepare the daily bank deposit, which should then be agreed to the daily checkout sheet.
- The County Clerk should require two signatures on all checks, with one being the County Clerk's.
- The County Clerk should allow a third deputy to post the daily checkout sheet to the receipts ledger. This deputy should also post check stubs to the disbursements ledger.
- The County Clerk should allow a deputy to complete the Legal Process Tax Report, agreeing the number of records on the report to the actual records that were recorded for that month.
- The County Clerk should allow a deputy to complete the monthly Deed Transfer Tax Report, agreeing the monthly report to the receipts ledger and deed book.
- The County Clerk should allow a deputy to complete the monthly Delinquent Tax Report, agreeing the monthly report to the receipts ledger and making all proper calculations due to the taxing districts.
- The County Clerk should allow a deputy to complete the quarterly report from the receipts and disbursements ledgers.
- The County Clerk should perform the monthly bank reconciliation, reconciling bank receipts and disbursements to the receipts and disbursements ledgers.
- The County Clerk should rotate the duties performed by deputies.
- The County Clerk should review all work performed by deputies, initialing all documents to provide verification of her review.

County Clerk's Response:

I have implemented many of the suggested controls in Calendar-Year 2007.